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Second country cooperation framework (CCF) for the Republic of Azerbaijan (2000-2004)

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Introduction

1. The second country cooperation framework (CCF) for the Republic of Azerbaijan for 2000-2004 is synchronized with the programming cycles of other key United Nations funds and programmes. It is based on the results of the 1999 UNDP country review, the interim findings of the United Nations Common Country Assessment (CCA), as well as recent legislation and decrees issued in the country. The CCF shares the spirit and intent of DP/1995/23. More specifically, it parallels those issues in which UNDP has a clear comparative advantage or mandate with areas that are of high priority in the ongoing economic transformation and development of the country. A United Nations Development Assistance Framework (UNDAF) will be prepared by the end of 2000. Ensuring its full consideration may mean revising the current CCF in light of the mid-term review.

I. The development situation from a sustainable human development perspective

2. Bold reforms instituted by the Government pulled the country out of a period of negative growth which lasted from shortly after its independence in 1991 to 1995. A period of fundamental structural change and transformation must now build upon the preceding period of stabilization. The absence of transparency has become one of the most pervasive obstacles to sustainable and people-centred development. The Government's commitment to democratization and reform remains relatively long term, focusing mainly on immediate political and economic imperatives as they relate to the conflict with neighbouring states and on fully exploiting the country's oil and gas reserves.

A. Government and political issues

3. Azerbaijan is often defined as a presidential republic under the leadership of President Heyder Aliyev who came to power in 1993. Censorship laws have been repealed, capital punishment abolished and a National Research Institute on Human Rights established. While Azerbaijan's single-chamber parliament has become more active and outspoken, it remains weak, with insufficiently developed infrastructure, party organization and rules of procedure. The parliament, is not influential enough to provide an effective counterpoint to the executive branch. Judicial power is vested in the constitutional, supreme, economic and lower-level general and specialized courts, a structure largely the same as it was during the Soviet period. As is the case with other entities, it is often alleged that the widespread interference of personal interests undermines the independence of the judiciary and the police. Reform of the role and functions of the executive branch has not kept pace with economic change.

4. The disruption of the economy and society as a result of the Nagorno-Karabakh war was, and remains, pervasive. Twenty per cent of the country is still under foreign occupation, preventing the repatriation and resettlement of the approximately 1 million Azerbaijani refugees and internally displaced persons (IDPs). Peace negotiations continue at the very highest levels between Azerbaijan and Armenia. However, the sensitivity of these negotiations limits the extent to which preparatory work for reconstruction is possible except in liberated areas of the south.

B. Macroeconomic issues

5. Azerbaijan's drop in economic output resulting from the break-up of the Soviet economic system and decades of economic mismanagement was dramatic. Real gross domestic product (GDP) in 1998 was only half of its 1990 level. The recovery begun in 1995 was driven mostly by foreign investment in the oil industry and associated sectors. The Government has had considerable success in introducing economic-stabilization measures and the budget deficit has been reduced to non-inflationary and manageable proportions. Privatization and structural reforms have, however, lagged behind stabilization. Revenue collection remains weak, in part because few firms outside the oil sector are worth taxing and in part because of discretionary and vague taxation policies. With unemployment at around 20 per cent, the Government is wary of any changes that would further strain the social and political fabric. The failure to sell off or close loss-making state-owned industrial firms is forcing the economy to be more dependent on oil and is creating hardship as many of these firms stay afloat by not paying their workers.

6. The creation of an enabling environment for small- and medium-sized enterprises, privately owned farms and community-based income-generating activities holds the greatest potential for future growth. Yet the sector remains severely depressed as a result of the non-availability of credit, tariffs, quotas, licensing requirements and taxation laws that are open to interpretation.

7. Government focus on natural resources devotes only limited attention to the agricultural sector. Labour-intensive and inefficient, the agricultural sector employs 40 per cent of the workforce but generates barely 10 per cent of GDP and is unable to meet domestic requirements for food. Structural bottlenecks in this sector include lack of rural financing, the poor condition and management of the irrigation system, the absence of extension and support services and marketing constraints.

8. The production and refining of oil and gas form the bedrock of the economy. Actual oil revenues from new fields will amount to approximately $100 million in 2000. Because of the relatively low-production volume, revenue is subject to significant fluctuations as a result of changing global oil prices. It is unlikely that oil revenues will directly impact human development at the general population level without structural change. The main thrust of government policy is to develop the oil sector by contracting out fields as fast as possible. This policy is as much political as it is economic.

C. Social issues

9. Between 1990 and 1995 Azerbaijan's ranking fell steadily on the human development index (HDI), dropping from 62 among 173 countries to 104 among 174 countries. The HDI has risen since 1995 as a function of economic progress and had increased in official life-expectancy estimates. A World Bank-supported poverty assessment in 1996-1997 found that over 60 per cent of Azerbaijani households are poor, of which 20 per cent are very poor with food expenditures less than half of the estimated amount required to purchase a subsistence food basket. Poverty, of course, is most intense among IDPs and refugees who remain heavily dependent on food aid from humanitarian organizations. According to the national human development report (NHDR) for 1999, households spend the great majority of their income on food, yet average household food consumption falls far short of the amount required for healthy diets.

10. Although men and women are fully equal before the law, the HDI demonstrates gender differences. Women's employment is concentrated in the lower-paying sectors of the economy and their average wages are lower than those of men in all sectors. The employment crisis has hit sectors where women are primarily employed: health, education, social welfare and agriculture. Furthermore, the unavailability of adequate and affordable childcare has caused many women to drop out of the labour force.

11. Real public expenditure on the social sector declined sharply in the past decade. Health facilities and schools, particularly beyond the primary level, have deteriorated both in terms of physical infrastructure and services provided. The breakdown of social security systems has resulted in a total loss of access to health services for those unable to pay the higher fees. Because of the nature of the index, however, this breakdown will be visible in the HDI only after several years of lag time.

12. Azerbaijan is considered to be the most heavily polluted country of the former Soviet republics. It has adequate fresh water reserves but much surface water is polluted with heavy metals and pesticide residues. Despite the decline in industrial production, atmospheric pollution levels remain high. Land productivity is also undermined by soil salinization. Reliable environmental monitoring systems do not exist, rendering enforcement of existing regulations impossible.

13. In conclusion, poverty is a growing problem in Azerbaijan. The benefits derived from growth of the oil and gas sector are unlikely to filter down to the general population without active efforts to do so and to stimulate the non-oil sector.

II. Results and lessons of past cooperation

14. Past UNDP programmes were excessively fragmented and project efforts were dissipated over a total of 25 projects. With few exceptions, therefore, the desired impact and results were limited. The ongoing effort to ensure that UNDP resources focused increasingly on areas in which it has demonstrated a

clear comparative advantage began two years ago and will be further intensified. Under the new CCF, UNDP will concentrate on two areas using a limited number of projects, as outlined in section III. Experience has shown that projects which directly target grass-roots beneficiaries are unlikely to be successful or sustainable without simultaneous efforts to address upstream policies and structural constraints. Grass-roots projects in the new CCF will therefore be clearly linked to upstream policy work while, simultaneously, successful pilot projects will demonstrate the relevance of UNDP advocacy work.

15. In the past UNDP has relied heavily on national capabilities in managing and implementing its programmes. The available domestic technical capacity and the difference in nominal cost have justified this decision. The value of providing Azerbaijan with access to expatriate, comparative expertise and methods should not be overlooked — particularly in the areas of management and governance. An appropriate mix of domestic and high-level expatriate expertise will therefore be ensured.

16. The country review, noting that national execution is relatively new in Azerbaijan, recommended further training for the country office in its support role, particularly with regard to procedures, cost-recovery and exit strategies. The review also suggested introducing a more systematic assessment of counterpart capacities on a case-by-case basis prior to entering into national execution strategies.

17. The country review found that the use of United Nations agencies for project executions had led to mixed results. It recommended that every effort be made to ensure that funds are promptly disbursed and that project delivery and other relevant reports are produced in a timely fashion. Agencies providing technical assistance should assume greater responsibility for the substantive outcomes of projects. Noting that the country office performed a number of administrative backstopping functions associated with project execution, particularly on behalf of UNOPS, the review advised the country office to explore potential cost-recovery mechanisms that will facilitate its support to United Nations core activities in Azerbaijan.

18. UNDP has provided extensive support to the process of post-conflict rehabilitation by funding and developing the capacity of the Azerbaijan Rehabilitation and Reconstruction Agency (ARRA) and the Azerbaijan National Agency for Mine Action. UNDP support to ARRA has facilitated the effective coordination of work in the sector by the World Bank, UNDP, the United Nations High Commissioner for Refugees (UNHCR), the European Union (EU) Technical Assistance to the Commonwealth of Independent States (TACIS) programme and others. Experience has shown that Government emphasis on physical reconstruction requires complementary, extensive programmes aimed at the creation and strengthening of community-based institutions for local governance and development management. Strengthening local government and improving resource transparency levels are important factors in efforts to raise significant additional resources. The country review found that in the reconstruction of war-damaged areas, the programmatic approach was used well and created a good foundation for future cost-sharing.

19. While the UNDP programme mentioned above was successful in mobilizing $70 million in parallel financing, the cost-sharing target of the present CCF was not achieved. The country review, however, found the cost-sharing target to be unrealistic and recommended a sound resource-mobilization strategy for the new CCF.

III. Objectives, programme areas and expected results

20. The second CCF in Azerbaijan will seek to maximize impact through programmes that (a) address critical constraints in the ongoing process of economic and political transformation; (b) address both downstream pilot operations as well as the broader, enabling policy environment; and (c) leverage significant additional resources either as cost-sharing or in parallel.

A. The structure of the CCF

21. The overriding objective of the CCF is to support Government efforts to alleviate poverty in the non-oil sector. Doing so requires creating an enabling environment for income generation and market-based solutions and promoting post-conflict rehabilitation and the reintegration of refugees and IDPs. Another

CCF goal is to ensure the effective use of domestic and international resources in managing the development process, the desired aim being to create opportunities for the general population and to guarantee its participation in the development process.

22. Growth and empowerment at the grassroots level through the creation of community-based organizations (CBOs) will strengthen the foundations for democracy by generating dialogue between grass-roots organizations and the official organs of the state. Carefully targeted poverty alleviation efforts will result in the integration and participation of vulnerable groups in mainstream economic and political development. It will target the needs of certain sections of the population that non-targeted interventions fail to address. Achieving these objectives will require adhering to two closely interrelated programme areas into which the largest portion of UNDP core resources will be channelled: (a) governance, i.e., the strengthening of democratic infrastructure, institutional transformation and economic reforms; and (b) support to post-conflict reconstruction and development.

23. UNDP will continue to use the NHDR as a main tool for its sustainable human development (SHD) advocacy work to promote a national dialogue on the critical issues facing the country in its transition process. Working with the World Bank and IMF, UNDP will explore the use of the NHDR as a key input in the development of a strategic framework for poverty alleviation and in development planning and management.

24. UNDP will continue to support the sustainable use of natural resources under the Global Environment Facility (GEF), particularly in the areas of biodiversity and climate change.

B. Programme area 1: democratic and economic governance

25. Azerbaijan views the transformation of its economic and political system as a high priority in its efforts to bring the country more in line with European norms and standards. An important part of this process is the strengthening of democratic infrastructures, greater transparency and public participation in political debate and decision-making processes. To create employment and stimulate the economy, UNDP will address those institutional and policy issues most critical to the effective development and growth of small-scale private-sector production. In an effort to deepen structural reforms, UNDP will work closely with the World Bank on a public-sector reform programme.

26. The programme area on governance will have two subprogrammes: (a) democratic governance; and (b) economic reforms/management.

27. The specific focus areas of UNDP interventions under the subprogramme on democratic governance are: (a) civil-society development; (b) capacity-building of the media; (c) institution-building for opinion polling; and (d) support to parliament.

28. The aim of the subprogramme on economic reforms is to contribute to the country's capacity for sound, economic management by: (a) strengthening the enabling environment for the development of small- and medium-sized enterprises (SMEs); (b) supporting the implementation of public-sector reform; (c) enhancing capacity-building by the State Employment Fund; (d) and by the State Oil Fund.

29. The expected outputs and outcomes for the focus area on institution-building under the subprogramme on democratic governance are:

(a) *Strengthened dialogue between the state and civil society*. To build a basis for informed national dialogue and to improve communication between the state and civil society, UNDP will support continued training and research into the specific vulnerabilities of different groups. UNDP will back the development of reliable legal norms and standards for non-governmental organizations (NGOs) to consolidate their independence from the State. A law on NGOs should be adopted during the CCF period.

(b) *Greater openness in the political and social debate by enhancing the role of the press and media*. UNDP will provide capacity-building to press and media agencies to raise professional standards and to establish the media as a credible, reliable source of information. The United Nations Department of Public Information (UNDPI) would be a natural partner in this process. Capacity-building efforts will also utilize the national human development report (NHDR) to disseminate the concept of SHD.

(c) *Creation of a non-governmental entity for reliable, opinion polling*. UNDP will explore the possibility of creating a non-governmental,

independent entity to conduct opinion polls. The aim is to provide various political parties, the press and the Government with a hitherto unavailable source of information for the development of demand-based public policies. Such an entity would undertake and improve the assessment of service delivery; influence the allocation of public resources; enable cross-country comparisons; and verify politically motivated claims and counter-claims. The preparation of the NHDR will benefit from the monitoring capacity created through the entity.

(d) *Establishing rules and procedures for parliament to enhance legislation review, information sharing and constituency building.* UNDP will (a) develop parliamentary rules of procedure in line with more developed parliamentary systems; (b) establish subsidiary parliamentary committees for substantive document and legislation review; and (c) create a system of maintaining parliamentary records and publishing daily parliamentary bulletins on proceedings.

30. The expected outcomes and outputs for the focus area on institution-building under the subprogramme on economic reforms are:

(a) *Creating an enabling environment and developing small-scale private sector production.* UNDP will support the simplification of regulations to reduce the scope for misinterpretation, minimize licensing requirements and lessen overall taxation while improving enforcement and collection systems. This intervention will also serve to review critical bottlenecks faced by small producers and to assist in the development of appropriate policies aimed at invigorating the sector.

(b) *Public sector management reform.* The Government is currently in the process of negotiating a policy loan from the World Bank for an intensive programme of public-sector reform. Considerable technical assistance will be required for the purpose, and UNDP should provide support to the Government and the World Bank in the implementation of reforms. This may include support to a national commission for public-sector reform under the president. UNDP will continue to contribute to the transfer of information technology to ensure more efficient and effective management.

(c) *State employment fund.* To support the process of economic and industrial transformation, the Government is developing an employment fund to address technology, investment and retraining requirements of newly created industries. UNDP will support the Government in developing management and planning capacity for this fund.

(d) *State oil fund.* UNDP will support the secretariat of the State Oil Fund, when established, to strengthen efforts to utilize oil revenues to stimulate the non-oil sectors of the economy and ensure that the revenues benefit the general population. In particular, it may develop the capacity of the fund to manage oil profits with a view to investing them in international capital markets and to supporting both the development of essential infrastructure services and the stimulation of small producers and entrepreneurs.

C. Programme area 2: support to post-conflict reconstruction and development

31. UNDP support to the process of rehabilitation and reconstruction will continue with added emphasis on the development of community-based planning and management capacity, the aim being to empower returnees to manage their affairs more efficiently, particularly with regard to the economic development of their areas. UNDP will work with the World Food Programme (WFP) on the utilization of food aid in labour-intensive public works and in infrastructure rehabilitation and reconstruction programmes, and with UNHCR on mine clearance and reintegration. Ongoing attempts to relocate internally displaced persons to liberated areas demonstrate the inherent difficulties and indeed the expense entailed.

32. The Government and donor community will, in the event of a peace agreement, face considerable pressure to address the dramatically expanded task of repatriation and reconstruction on short notice. Donor interest may increase as a number of donors seek to assist in the resolution of the underlying causes of conflict. In such an event, UNDP will need to significantly step up its support, including the backing of any international donor conference in the event of a peace agreement. UNDP will, therefore, continue capacity-building of national institutions to manage the reconstruction process, including needs assessments and resource management.

D. Cross-cutting themes

1. Gender in development

33. Gender will be a cross-cutting theme in all of the above programme areas. Ensuring women's access to opportunities and their economic and political empowerment during the transition period will be a high priority for UNDP. The UNDP-supported Gender in Development (GID) Bureau will be encouraged to participate in policy development meetings and forums as they relate to income-generation activities and post-conflict rehabilitation and reconstruction. The GID Bureau will continue to participate in the ongoing policy dialogue with the Government, including preparation and follow-up to the NHDR.

2. Aid coordination and improved resource management

34. The UNDP will strengthen the role of the Council of Ministers and the Office of the President in the coordination and management of domestic- and foreign-aid resources. Substantive coordination between key donor agencies in Azerbaijan needs to be further developed. Avenues will be sought to establish more substantive collaboration and dialogue with the Government on key issues of the transition process. UNDP will explore the possibility of working with the Government to elaborate a sustainable human development strategy for the coordination and management of resources for development purposes.

IV. Management arrangements

A. Programme reserve and programme support

35. Particular attention will go to strengthening the capacity of both the Government and the country office to manage projects and programmes effectively, and to enhance the policy dialogue between the country office and national authorities. UNDP therefore needs a degree of flexibility to provide the Government with appropriate technical and management expertise and capacity. A programme- and policy-support project will be formulated and approved for this purpose. The development needs of the country, however, may change dramatically in the event of a peace agreement. In order to enable UNDP to address such needs effectively, a programme reserve of 20 per cent of TRAC line 1.1.1 and TRAC line 1.1.2 combined will be retained.

B. Execution, implementation and partnerships

36. UNDP will maintain its ongoing close working relationship with the World Bank, both within the context of its public-sector reform programme and within any future programmes for the reconstruction of war-affected areas, as well as with the World Bank and the International Monetary Fund (IMF) on their poverty strategy paper. Efforts will be made to define and enter into modalities that will enable the World Bank to utilize UNDP management services for the effective management of International Development Association (IDA) funds in areas that require technical assistance for capacity-building and structural change. UNDP will also continue to work with the GEF, the United Nations Population Fund (UNFPA) and UNAIDS in implementing its global mandates where resources can be mobilized. The use of national and international UNV volunteers will be expanded, particularly in downstream, community development and income-generation activities. UNDP will continue to foster its excellent collaborative relations with key bilateral partners and EU TACIS programme, particularly in the area of post-conflict reconstruction.

37. The capacity of national entities to execute programme activities will be carefully assessed on a case-by-case basis. The scope of UNDP involvement in the direct management of projects will be reviewed and expanded, particularly in the areas of policy development and the transition from relief to development. Fledgling partnerships with national NGOs involved in the development of policy dialogue will be further developed along with efforts to ensure the accountability of state agencies. Active involvement of national and international NGOs in the implementation or execution of key UNDP projects may also be considered.

C. Resource mobilization and aid coordination

38. Resource mobilization must become one of the highest priorities for UNDP in Azerbaijan. The level of

donor involvement is not particularly high and is unlikely to increase significantly unless either a peace agreement is signed with the Republic of Armenia, or significant structural changes take place within the Government to raise donor confidence. UNDP will position itself to attract such resources by focusing its attention on certain critical constraints. It will also focus on creating national capacity to make efficient use of such resources when they are forthcoming. UNDP will also attempt to build strategic partnerships with donors who are not represented in Azerbaijan. UNDP will seek to mobilize private resources for the implementation of specific programmes in the environmental sector and for the effective and efficient utilization of natural resources that have clear and measurable results. The UNDP office will develop a detailed resource-mobilization strategy.

D. Results-based management, evaluation and monitoring

39. The strategic results framework (SRF) for Azerbaijan will be adjusted to reflect the enhanced focus and reorientation of the second CCF. The SRF and its indicators will be used as the basis for monitoring and evaluating the implementation of the overall UNDP programme. A country review will be scheduled at the CCF mid-term to assess performance and reorient programme and management activities and arrangements as necessary. Current arrangements which use a mix of national and foreign, private auditing firms to undertake regular management and financial audits of projects and programmes will continue to be applied.

Resource mobilization target table for the Republic of Azerbaijan (2000-2004)

Source	*Amount (In thousands of United States dollars)*	*Comments*
UNDP regular resources		
Estimated carry-over	1 457	Includes AOS
TRAC 1.1.1	5 918	Assigned immediately to country
TRAC 1.1.2 0 to 66.7 per cent of TRAC 1.1.1		This range of percentages is presented for initial planning purposes only. The actual assignment will depend on the availability of high-quality programmes. Any increase in the range of percentages would also be subject to availability of resources.
TRAC 1.1.3	2 000	Assumes assignment of TRAC 1.1.3
SPPD/STS	232	
Subtotal	**9 607**[a]	
UNDP other resources		
Government cost-sharing	7 000	
Sustainable development funds	2 000	
of which:		
Capacity 21	200	
GEF	1 800	
Third-party cost-sharing	7 000	
Funds, trust funds and others	250	
of which:		
Nordic Funds	250	
Subtotal	**16 250**	
Grand total	**25 857**[a]	

[a] Not inclusive of TRAC 1.1.2, which are allocated regionally for subsequent country application.

Abbreviations: AOS = administrative and operational services; GEF = Global Environment Facility; SPPD = support for policy and programme development; STS = support for technical services; TRAC = target for resource assignment from the core.